Australian Treasury chief: Labor government must slash spending and suppress wages

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Statements this week by Australian Treasury secretary Steven Kennedy underscore how quickly the recently-installed Labor government has scrapped its deceptive election slogans of a "better future" with "no one left behind."

Kennedy made it clear that the government must cut social spending—particularly in already severely under-funded health, aged care and disability programs—and stifle workers' growing demands for wage rises to match the spiralling cost of living and soaring interest rates.

Kennedy, who was appointed by the previous Liberal-National Coalition government but whose services the Albanese government has retained, was obviously speaking with the agreement of Treasurer Jim Chalmers.

"In many ways, a lot of my focus with the new treasurer will be ensuring that we have sustainable spending and taxing behaviour," Kennedy told an Australian Business Economists event in Sydney on Wednesday.

By "sustainable" spending he meant "commitments to structural spending in areas including disability support and aged care" that were "putting sustained pressure on the budget." By "taxing behaviour," he meant not reversing major cuts to corporate and high-income taxes.

Kennedy's intervention came on top of two other key messages dictated by the financial markets and big business. One was this week's decision by the Reserve Bank of Australia (RBA), on whose board Kennedy sits, to inflict the largest interest rate rise in 22 years—0.5 percentage points—and signal more sharp hikes ahead, in a deliberate move to suppress wage demands.

Just before the May 21 election, the RBA had sent an early warning by raising rates from near-zero, for the first time in nearly two years, by 0.25 percent. But once the election was out of the way, the RBA abruptly dropped its previous promises not to jack up rates until falling real wages began to rise.

The other message was the Labor government's June 3 submission to the pro-business industrial tribunal, the Fair Work Commission, opposing any "across-the-board" pay rise for workers in line with inflation, regardless of the sky-rocketing cost of living.

"This submission does not suggest that across-the-board, wages should automatically increase in line with inflation," the government stated. "The key driver of real wage growth (excluding inflation) over the longer-term is labour productivity."

In other words, any pay rises had to be tied to further ratcheting up "labour productivity"—that is, driving up output per worker in order to boost corporate profits, which already rose by 21.6 percent in the 12 months to March.

This week Kennedy effectively detonated the central conspiracy of the election campaign: The fraudulent claims made by both the Labor Party and the Coalition throughout that Australia was a unique prosperous exception to the worldwide economic crisis produced by the US-NATO war against Russia in Ukraine, the ongoing COVID-19 pandemic and the inflationary effect of governments and central banks pumping trillions of dollars into the money markets over the past decade.

Summarising the tasks of the Labor government, Kennedy said global settings were the "most complex" in 70 years: "There are no upsides to global growth from the war in Ukraine, COVID-19 crisis in China and persistent supply-chain challenges. Commitments to structural spending in areas including disability support and aged care are putting sustained pressure on the budget."

But all these factors were well known long before the election. They were systematically covered up by every party and member of the political establishment, aided and abetted by the corporate media.

The Socialist Equality Party alone warned in its election statement: "Whatever the shape of the next government—Coalition, Labor or a minority government backed by various independents—it will make the working class pay for the huge budget deficits and spiralling government debt created by pouring billions into military spending and big-business pandemic support packages."

Moreover, Kennedy's declarations echo those issued by the International Monetary Fund (IMF) in April. As the WSWS reported on April 25, the IMF proclaimed that "fiscal repair"—the cutting of spending on vital social services—had to be undertaken urgently by every capitalist government to pay off unprecedented deficit and debt levels.

Those dictates are currently being applied most brutally to Sri Lanka and other increasingly impoverished countries, but the

IMF specifically mentioned Australia, whose government debt will hit $1.2 trillion by next year. The head of its fiscal affairs department, Vitor Gaspar, said countries such as Australia that had increased their debt levels had to start "normalising" their fiscal policy.

For all the Labor Party's phony election promises to ease the cost of living crisis devastating working-class households, the global inflationary spiral will worsen for the foreseeable future. Yesterday's rise in the official US inflation rate to 8.6 percent indicates what lies ahead. The RBA itself is forecasting the domestic Consumer Price Index (CPI) to be near 8 percent by the end of the year, well above its previous prediction of 6 percent.

For the working-class, the effect of soaring food, fuel and housing costs is far greater than measured by the CPI, both because such "non-discretionary" prices are rising the fastest and because these costs consume a much higher proportion of household expenses.

Much worse is to come as well. The financial markets are betting that home mortgage rates will rise by another nearly 3 percentage points by November 2023. That would add almost $1,000 a month to repayments on an "average" 25-year variable rate mortgage of $500,000, causing critical financial stress in working-class areas, and driving up rents even further as well.

House prices are also predicted to fall, leaving many home buyers with "negative equity"—owing more on the mortgages than the market value of their homes. Homelessness is already spreading, with even the mass media reporting that growing numbers of working-class people are living in tents.

Contrary to earlier ruling class claims, the inflationary crisis is not temporary. That is because governments have ended COVID safety measures for the sake of capitalist profit, causing resurging infections and deaths, as well as supply chain breakdowns, and the Biden administration is intent on escalating the Ukraine war to seek to inflict a crushing defeat on Russia.

Kennedy said the supposed inflation shock and "significantly" higher borrowing costs had overturned the pre-election line that the Australian government could simply grow its way out of its trillion dollar-plus gross debt because of resumed global growth and super-low borrowing costs.

At the same time, the Treasury chief opposed any suggestion of lifting taxes, saying this would provide "disincentives." The Albanese government has quickly re-affirmed its commitment to proceed with the Coalition government's "stage three" income tax cuts, which benefit high-income households by up to $23,280 a year, while slashing government revenues by more than $300 billion over a decade.

In line with the Labor government's demand for higher "labour productivity," Kennedy warned of even greater government debt if annual productivity growth failed to rise from 1.2 percent to 1.5 percent as assumed in this year's March federal budget, for which the then Labor opposition voted.

An *Australian Financial Review* editorial this week insisted that the Labor government had to "sell the idea of lower wages." In the Murdoch media's *Australian* today, editor-at-large Paul Kelly said imposing the resulting "pain" was "make-or-break" for the government, for which "political management will be a supreme task."

For that "supreme task," the government is counting heavily on the trade unions to keep workers' wage demands way below the cost of living. It has scheduled a "summit" with the unions and employers for September to collaborate together for that purpose.

That is despite the share of national income going to profits setting a record at 31.1 percent in the March quarter. This is almost double the figure of around 18 percent in 1983, when the incoming Hawke-Keating Labor government convened a previous "summit" with the unions and employers and signed its first wage-cutting Prices and Incomes Accord with the Australian Council of Trade Unions.

A collision course is developing. Today's government-employer-union offensive already confronts strikes and protests by public sector workers, teachers, paramedics and university staff, on top of those that took place during the election campaign involving nurses, other health workers, aged care workers, bus drivers and others.

But workers can only answer the assault on their living conditions by breaking out of the union straitjacket, forming rank-and-file committees, totally independent of Labor and the unions, and developing the fight for a socialist program, based on meeting social need, not feeding private profit and insatiable wealth accumulation.

These urgent issues will be discussed at the SEP's online public meeting tomorrow, Sunday, June 12, at 2 p.m. (AEST) to review the election outcome and the explosive class battles ahead. Register now to attend this important meeting.